# *PERSONALLY SPEAKING*

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## INCOME INEQUALITY AND ECONOMIC OPPORTUNITY

**Edward J. O'Boyle, Ph.D.**
**Mayo Research Institute**


**Income redistribution enjoys wide appeal in part because the public has been conditioned to accept the proposition that whatever income gains one person achieves come at the expense of someone else. Therefore it is reasonable for the federal government to redistribute those gains to the truly deserving and intervene more aggressively in economic affairs to promote economic opportunity. These assertions and arguments have been used most recently by President Obama himself, perhaps to deflect attention from the troubled launch of Obamacare.**

**Two metrics seem to support Obama. Median household income fell by 6.6 percent between 2000 and 2012. Over this period only four states -- Louisiana, North Dakota, South Dakota, and Wyoming -- and the District of Columbia reported statistically significant increases in median household income. The biggest hit was taken by Michigan (-19.1 percent). Second, over the same period the share of income received by households in the highest quintile of income distribution rose from 49.8 percent to 51.0 percent. Gains for the top five percent, however, were less impressive: from 22.1 percent to 22.3 percent.**

**Two metrics undermine the claim that economic opportunities in America are diminishing. First, household income data *per se* do not take into account changes during this period in household composition. In 2012 married-couple families made up 73.2 percent of all families. In 2000 they accounted for 76.7 percent of all families. In 1973 a total of 85.0 percent of all families were married-couple families.**

**Married-couple families are more likely than other families to have two wage-earners. Thus, the drop in median household income reflects significantly an increase in the number and proportion of households with a single wage-earner and a decrease in income that necessarily follows. Put differently, a stable marriage provides opportunities for economic advancement that are not readily available to those who are not married.**

**An estimated 93.7 percent of all married-couple families in 2012, compared to 73.3 percent of other families, were above the official poverty thresholds. On average, nonpoor married-couple families had incomes that were $82,430 above the poverty. Nonpoor female-headed families had incomes that were $38,676 above poverty.**

**Second, real hourly compensation has been on the rise. The national index for real hourly compensation (2009 = 100.0) climbed from 92.1 in 2000 to 100.3 in 2012. The rise in output per hour, which made the improvement in real hourly compensation possible and would have resulted**

**in an even larger increase were it not for the Great Recession, was more impressive: from 80.2 in 2000 to 105.3 in 2012. By reducing the cost of production, these gains helped dampen inflationary pressures in the economy and at the same time contributed to a surge in profits.**

**Other decisions originating in Washington came into play to undermine the claim that government intervention is necessary to address income inequality and beneficial.**

**The Federal Reserve itself applied downward pressure on incomes from certificates of deposit, bonds, and similar financial instruments by its policy of suppressing interest rates through quantitative easing.**

**The North American Free Trade Agreement made it easier for U.S. employers to reduce the cost of production and raise profits by relocating high-wages manufacturing jobs to Mexico.**

**Huge increases in disability insurance and unemployment insurance payments have reduced the incentive to look for work even when the earnings from a job might have provided more income. In this regard, notice the drop in labor force participation for persons 20 years of age and older from 68.2 percent in November 2000 to 65.8 percent in November 2012.**

**The boom in home ownership made possible by sub-prime mortgages backed by Fannie Mae and Freddie Mac put families into homes they could not afford, reducing their ability to relocate where jobs were available until they could figure out how to sell their homes in a declining market or deal with foreclosure.**

**Three other factors play a role regarding the accuracy of income distribution data and the significance of that data over time. A 2011 estimate by Fiege and Cebula put the annual amount of income not reported to the IRS at $2 trillion. The incentive to underreport is obvious and powerful: it reduces taxes paid and boosts eligibility for entitlement benefits.**

**Income distribution comparisons made over time do not take into account mobility across income classes. For any quintile in the distribution, it matters greatly if many of the households remain in that class with the passage of time or transition to another class.**

**Income *share* is not the same as or as important as income *amount*. When national income of $1 trillion is divided equally across 100 million households, each quintile gets 20 percent and every household has income of $10,000. When national income of $10 trillion is divided such that the poorest quintile gets 5 percent, those 20 million households have average household income of $25,000. The key, as any student of economics will affirm, is to grow the economy.**

**Consider how the self-destructive behavior of teenagers who drop out of high school impacts their chances for economic advancement. The most recent annual data indicate that more than 511,000 ninth-to-twelfth graders dropped out of public school. Their grim job market prospects for finding steady, well-paying jobs have been well documented for years. Consider as well the international ranking of American students in reading, science, and math. Among 15-year-olds tested in 34 countries, Americans in 2012 ranked 17th in reading, 21st in science, and 26th in math.**

**Finally, what matters much more than income share is income amount. In 2012, a *nonpoor* married-couple family had annual income $92,791 higher than the income of a *poor* female-headed family. Any government redistribution scheme to wipe out such enormous differences likely would touch off a rebellion. The answer lies in the formation and maintenance of stable and loving married-couple families. Even then, other factors such as sickness, death, and natural disasters are likely to negatively impact family income.**

**Economic opportunity begins in the home. Any failure there originating in underachievement in school or other self-destructive behavior cannot be fixed in Washington.**

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**Edward J. O'Boyle is Senior Research Associate at Mayo Research Institute**

***Offices in New Orleans, Lake Charles, and West Monroe***

***www.mayoresearch.org 318-381-4002 edoboyle737@gmail.com***

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